

**SUMMARY OF THE REGULAR MEETING OF THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS COMMITTEE**

**HELD ON  
Thursday, February 28, 2008  
10:30 a.m., MST**

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in regular session in the 14<sup>th</sup> Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. David Byers, Chair, called the meeting to order at 10:30 a.m.

This meeting was teleconferenced to the ASRS Tucson office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. David Byers, Chair  
Mr. Steven Zeman, Vice-Chair (Via Teleconference)  
Dr. Keith Meredith (Via Teleconference)

Absent: Mr. Michael Townsend

A quorum of the Committee was present for the purpose of conducting business.

**2. Approval of the Minutes of the December 21, 2007 OC Meeting**

**Motion:** Dr. Keith Meredith moved the minutes of the December 21, 2007, OC meeting be adopted as presented. Mr. Steven Zeman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**3. Presentation, Discussion and Appropriate Action Regarding the Deputy Director's Quarterly Information Technology (IT) Plan Report**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced Mr. Bob Solheim, the ASRS Independent Advisory Consultant (IAC), who updated the Committee on the status of various projects within the IT Plan from an enterprise-wide perspective.

Mr. Solheim presented a chart to the Committee regarding an assessment of the enterprise IT plan's progress. The chart was divided into the various key performance indicators of the plan. Each indicator was rated green (satisfactory progress), yellow (at risk), or red (unsatisfactory). All items were rated green, except for the item regarding staffing levels, which have been problematic due to resignations, particularly of consultants. He also noted the final cycles of the survivor benefits project had been implemented.

Mr. Kent Smith, Assistant Director, Information Services Division, gave an update on the current status of the information technology items that were either completed or are currently in development. He said Phase 2 of the online contribution reporting has been completed, so there were only three projects remaining to close out the IT Plan: contribution posting, phase 2 of the

pension payroll, and service requests & incidents. He also stated there is work progressing on allowing retirees the ability to view their direct deposit advice online via the ASRS website.

#### **4. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Program 2009 Renewal**

Mr. Patrick Klein, Assistant Director for External Affairs, addressed the Committee regarding the ASRS Retiree Health Insurance Program 2009 renewal. Mr. Klein said the premiums for 2009 will not increase from either PacifiCare, the medical insurance provider for retirees, or Assurant, the retiree dental provider. He also indicated there would be no plan provision changes. He noted that 2009 is the last year for the medical insurance contract with PacifiCare. A Request For Proposal for medical insurance will be conducted in early 2009 with a January 1, 2010, effective date.

Mr. Klein briefly discussed the history of premiums for retiree health insurance since 1996. He said the chart indicates the ASRS has focused on keeping premiums as low as possible. He also provided information on the variance in health insurance programs and how premium increases were mitigated by plan changes. There was a brief discussion on the differential between the cost to retirees of premiums versus the overall costs to a retiree such as co-pays, increase prescription costs, etc., with a request by Committee members that future reporting on health care costs contain the overall costs to retirees instead of just premium costs.

Mr. Klein then spoke on the convening of a committee by Arizona Representative Bill Konopnicki that was created to address health insurance concerns of rural retirees, but is now considering the formation of a single health insurance program for all public sector retirees. This would be a program of “first resort” for retirees. He said there has been no plan design established and the discussion is preliminary, however, there has been some discussion from the health insurance committee on a governance structure for the program. Ms. Lesli Sorensen, the ASRS Legislative Liaison, indicated that Rep. Konopnicki had introduced House legislation titled “Arizona Retiree Health Care Benefits Board,” but the language of the bill had not been made available.

#### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Defined Benefit Plan Design Topics**

Mr. Klein addressed the Committee regarding emerging topics on the ASRS defined benefit plan design. He gave a brief description of various workgroups (internal and external) that have provided input on the plan design such as contribution rates, vesting, and return-to-work issues. A brief discussion on return-to-work retirees ensued focusing on items such as how return-to-work retirees affect the financial health of the fund and how an employer may benefit by having a return-to-work retiree. Mr. Guarino noted there is no action being taken with regards to those issues at this time.

Mr. Klein also stated that some of the workgroups have discussed the issue of what constitutes “membership” in the ASRS including questions of dual employment and dual membership along with how service is credited toward retirement. He said the workgroups have provided meaningful input that will help guide the agency in addressing these concerns and that he hopes

to have some final recommendations by the summer of 2008 so that legislation can be proposed for the next legislative session.

## **6. Review of Recently Conducted Audits**

- **Horse Mesa School**
- **City of Maricopa**
- **Trading Controls**

Mr. Anthony Guarino introduced Mr. Bernard Glick, the ASRS Chief Auditor, who updated the Committee on two recently conducted audits and issued a report on trading controls.

The first audit dealt with Horse Mesa School. Mr. Glick said the audit of this school produced two findings. First, the employer had nine part-time employees who met ASRS membership eligibility criteria and were not contributing to the ASRS, and the employer had 15 employees who were not contributing at Horse Mesa School but were contributing through other ASRS employer members. Mr. Glick said the school owed the ASRS a combined total \$23,200.81 in contributions.

The second audit involved the City of Maricopa. Mr. Glick reported only one finding that the City of Maricopa did not withhold ASRS contributions from compensation paid to four employees who were contributing to the ASRS through a second employer. He stated the amount due to the ASRS was \$4,387.

Mr. Glick then addressed the Committee regarding internal and external trading protocols, procedures and controls. He said Internal Audit had not actually audited the controls, but was providing a review of the controls in place in response to the recent news of a rogue trader in France's Societe Generale who fraudulently used company funds to bet on European stock markets.

Mr. Gary R. Dokes, the ASRS Chief Investment Officer, spoke to the Committee regarding audit controls stating the checks and balances on ASRS trading is equal to or surpasses trading controls in other public and private sectors. He commended the work done by Internal Audit on identifying the controls and how they reduce the possibility of mistakes or criminal behavior. Mr. Glick said there were adequate controls to deter or immediately identify an occurrence like what transpired in France and indicated that it would take something on the level of a conspiracy in order to circumvent the checks and balances that are in place. He also noted that over the course of the last year, approximately 60,000 transactions are executed but only approximately 10 discrepancies were found.

## **7. Request for Future Agenda Items**

None.

## **8. Call to the Public**

No members of the public addressed the Committee.

**9. Adjournment of the OC**

Mr. David Byers adjourned the meeting at 12:01 p.m.

Respectfully Submitted by,

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Zachary Kucera  
Committee Secretary

Date

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Anthony Guarino  
Deputy Director and Chief Operations Officer

Date